

**HEBER VALLEY
SPECIAL SERVICE DISTRICT**

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS**

December 31, 2006 and 2005

HANSEN, BARNETT & MAXWELL, P.C.

A Professional Corporation
CERTIFIED PUBLIC ACCOUNTANTS

HEBER VALLEY SPECIAL SERVICE DISTRICT

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Registered with the Public Company
Accounting Oversight Board



INDEPENDENT AUDITOR'S REPORT

Honorable Board of Heber Valley
Special Service District
Midway, Utah

We have audited the balance sheets of Heber Valley Special Service District, a component unit of Wasatch County, as of December 31, 2006 and 2005, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heber Valley Special Service District as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2007 on our consideration of Heber Valley Special Service District's internal control over financial reporting and our tests of its compliance with certain laws, provisions, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedules, "Schedule of Revenues, Expenses, Debt Retirement, and Capital Asset Acquisitions Compared to Budget as Amended (Other than Depreciation and Impact Fee Transactions)" and "Impact Fee Schedule" are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Hansen, Barnett & Maxwell, P.C.

HANSEN, BARNETT & MAXWELL, P.C.

Salt Lake City, Utah
May 10, 2007

Management's Discussion and Analysis

December 31, 2006

The following is a discussion and analysis of Heber Valley Special Service District's financial performance providing an overview of the District's financial activities for the year ended December 31, 2006. It should be read in conjunction with the District's financial statements.

Financial Highlights

The assets of Heber Valley Special Service District exceeded its liabilities at the close of the year by \$20,168,931, an increase of assets in 2006 of \$1,217,255.

The District collected \$111,294 for the Capital Contingency Fund assessment.

The District replaced two tractors, a baler, and a hay rake during 2006.

The District installed three Solar-Bee, solar powered aerators, in the winter storage lagoons to keep the water aerobic, reducing odors at the farm site.

The District finished the refurbishing of irrigation pumps and Blower Building motors.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's financial statements. The district's financial reporting consists of two components: 1) financial statements, and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The District uses proprietary fund accounting to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges. Therefore, the financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business.

The *balance sheet* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of revenues, expenses and changes in net assets* presents information showing how the District's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g. earned but unused vacation leave).

The *statement of cash flows* shows what affect the District's operating activities, investing activities, and financing activities had on cash flows. Cash is vital to all organizations, and this statement helps the reader understand how the District received and used cash during the year.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are an integral part of the financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report presents certain information relating to the operations of the District without regard to depreciation or impact fees, which are compared to budgeted amounts. The report also contains a schedule of impact fees covering the last several years.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$20,168,931 at the December 31, 2006.

Heber Valley Special Service District's Net Assets

| | 2006 | 2005 | 2004 |
|--|--------------|--------------|--------------|
| Current Assets | \$ 6,942,032 | \$ 5,779,925 | \$ 3,771,434 |
| Capital Assets | 13,246,927 | 13,191,779 | 13,394,426 |
| Total Assets | 20,188,959 | 18,971,704 | 17,165,860 |
| Current Liabilities | 20,028 | 17,704 | 13,382 |
| Long-term Liabilities | - | - | 500 |
| Total Current and long-term debt | 20,028 | 17,704 | 13,882 |
| Net Assets: | | | |
| Invested in capital assets, net of related debt | 13,246,927 | 13,191,779 | 13,394,426 |
| Restricted for capital improvements (impact fees) | 5,711,559 | 4,449,744 | 2,638,356 |
| Unrestricted | 1,210,445 | 1,312,477 | 1,119,196 |
| Total Net Assets | \$20,168,931 | \$18,954,000 | \$17,151,978 |

The largest portion of the District's assets (66%) reflects its investment in capital assets (e.g. land, buildings and equipment), less any related debt used to acquire those assets that is still outstanding. Impact fees and/or capital contingency fund charges provide resources to repay capital-related expenditures and debt.

An additional portion of the District's net assets (28%) represents resources that are subject to external restrictions on how they may be used (e.g. impact fees). The restricted balance is for capital projects and land acquisitions.

The remaining balance of unrestricted net assets (6%) may be used to meet the District's obligations to customers, member agencies, employees, and creditors to honor next year's budget.

As of December 31, 2006 *total assets* increased mainly from impact fee collections.

Heber Valley Special Service District's Changes in Net Assets

| Operating Revenue | 2006 | 2005 | 2004 |
|--------------------------------------|----------------------|----------------------|----------------------|
| Sewer Service Revenue | \$ 464,979 | \$ 432,521 | \$ 613,808 |
| Farmstead | 98,859 | 117,443 | 85,334 |
| Total Revenues | <u>563,838</u> | <u>549,964</u> | <u>699,142</u> |
| Operating Expenses | | | |
| Sewer Service | 251,686 | 206,083 | 177,074 |
| Farmstead | 122,175 | 97,869 | 108,898 |
| General and Administrative | 74,000 | 63,764 | 38,415 |
| Depreciation Expense | <u>406,313</u> | <u>376,401</u> | <u>370,359</u> |
| Total Expenses | <u>854,174</u> | <u>744,117</u> | <u>694,746</u> |
| Net Non-Operating Revenue (Expenses) | <u>1,505,267</u> | <u>1,996,175</u> | <u>1,577,415</u> |
| Change in Net Assets | 1,214,931 | 1,802,022 | 1,581,811 |
| Net Assets at Beginning of Year | <u>18,954,000</u> | <u>17,151,978</u> | <u>15,570,167</u> |
| Net Assets at End of Year | <u>\$ 20,168,931</u> | <u>\$ 18,954,000</u> | <u>\$ 17,151,978</u> |

The District's net assets increased by \$1,214,931 in 2006. Key elements of this increase follow:

Total revenues were up slightly from the increase of wastewater influent with Farmstead Revenues down about \$19,000.

Impact fees collected during the year was \$1,100,000.

User fees remained at \$0.52 per thousand gallons with the Capital Contingency Fund rate at \$1.50 per month per equivalent residential connection increasing Sewer Revenues by about \$32,000.

The General and Administrative Expenses reflect an increase related to on-going expenses of continued problems with treatment cell 1a.

Unrestricted net assets of the District as of December 31, 2006 amounted to \$1,210,445, a decrease of \$102,032.

Capital Asset and Debt Administration

Capital Assets

The District's investment in capital assets as of December 31, 2006 amounts to \$13,246,927 (net of accumulated depreciation). This investment in capital assets includes the Treatment Plant and related equipment, farm ground and related equipment, and some miscellaneous assets.

Major capital events during the current year included:

Purchase and replacement of two tractors, a bailer and a hay rake on the farm.

Purchase of three Solar-Bee, solar powered aerators, in the winter storage lagoons.

Completion of the renovation of the blowers and irrigation pumps.

Heber Valley Special Service District's Capital Assets
(net of depreciation)

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|--------------------------------------|------------------|------------------|------------------|
| Land | \$ 6,216,626 | \$ 6,216,626 | \$ 6,216,626 |
| Buildings, plant and equipment – net | <u>7,030,301</u> | <u>6,975,153</u> | <u>7,177,800</u> |
| Net capital assets | \$13,246,927 | \$13,191,779 | \$13,394,426 |

Additional information on the District's capital assets can be found in the notes to the financial statements.

Long-term Debt

The District had no debt as of December 31, 2006 and 2005 and no debt payment for the years then ended.

The District is not aware of any existing conditions that will significantly change its financial position in the current year.

Request for Information

This financial report is designed to provide a general overview of Heber Valley Special Service District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the office of the District in care of District Superintendent at P.O. Box 427, 1000 East Main, Midway, Utah 84049-0427.

**HEBER VALLEY SPECIAL SERVICE DISTRICT
BALANCE SHEETS
DECEMBER 31, 2006 AND 2005**

| | <u>2006</u> | <u>2005</u> |
|---|----------------------|----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and equivalents | \$ 1,160,601 | \$ 1,261,645 |
| Cash and equivalents - restricted | 5,711,559 | 4,449,744 |
| Receivables - other governmental units | 37,262 | 35,341 |
| Other receivables | 24,721 | 25,306 |
| Other current assets | 7,889 | 7,889 |
| Total Current Assets | <u>6,942,032</u> | <u>5,779,925</u> |
| Capital Assets | | |
| Land and water rights | 6,216,626 | 6,216,626 |
| Buildings, plant and equipment | 14,019,025 | 13,699,405 |
| Construction in progress | 2,760 | 2,760 |
| | <u>20,238,411</u> | <u>19,918,791</u> |
| Less: Accumulated depreciation | <u>(6,991,484)</u> | <u>(6,727,012)</u> |
| Net Capital Assets | <u>13,246,927</u> | <u>13,191,779</u> |
| Total Assets | <u>\$ 20,188,959</u> | <u>\$ 18,971,704</u> |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities | | |
| Accounts payable | \$ 9,671 | \$ 10,636 |
| Other current liabilities | 10,357 | 7,068 |
| Total Current Liabilities | <u>20,028</u> | <u>17,704</u> |
| Net Assets | | |
| Invested in capital assets, net of related debt | 13,246,927 | 13,191,779 |
| Restricted for capital improvements-impact fees | 5,711,559 | 4,449,744 |
| Unrestricted | 1,210,445 | 1,312,477 |
| Total Net Assets | <u>20,168,931</u> | <u>18,954,000</u> |
| Total Liabilities and Net Assets | <u>\$ 20,188,959</u> | <u>\$ 18,971,704</u> |

The accompanying notes are an integral part of these financial statements.

**HEBER VALLEY SPECIAL SERVICE DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

| | <u>2006</u> | <u>2005</u> |
|--|-----------------------------|-----------------------------|
| Operating Revenues | | |
| Sewer service revenue | \$ 464,979 | \$ 432,521 |
| Farmstead revenue | 98,859 | 117,443 |
| Total Operating Revenues | <u>563,838</u> | <u>549,964</u> |
| Operating Expenses | | |
| Sewer service | 251,686 | 206,083 |
| Farmstead | 122,175 | 97,869 |
| General and administrative expenses | 74,000 | 63,764 |
| Depreciation expense | 406,313 | 376,401 |
| Total Operating Expenses | <u>854,174</u> | <u>744,117</u> |
| Operating Income (Loss) | <u>(290,336)</u> | <u>(194,153)</u> |
| Non-Operating Revenues (Expenses) | | |
| Interest income - other | 56,662 | 33,472 |
| Interest income - impact fees | 253,937 | 116,866 |
| Land rent | 8,337 | 8,337 |
| Gain on sale of assets | 83,944 | 500 |
| Impact fees | 1,102,387 | 1,837,000 |
| Net Non-Operating Revenues (Expenses) | <u>1,505,267</u> | <u>1,996,175</u> |
| Change in Net Assets | 1,214,931 | 1,802,022 |
| Net Assets at Beginning of Year | <u>18,954,000</u> | <u>17,151,978</u> |
| Net Assets at End of Year | <u><u>\$ 20,168,931</u></u> | <u><u>\$ 18,954,000</u></u> |

The accompanying notes are an integral part of these financial statements.

**HEBER VALLEY SPECIAL SERVICE DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

| | 2006 | 2005 |
|--|----------------------------|----------------------------|
| Cash Flows From Operating Activities | | |
| Cash received from customers | \$ 562,502 | \$ 909,964 |
| Cash paid for operating goods | (355,167) | (276,934) |
| Cash paid to employees | (90,370) | (86,459) |
| Net Cash From Operating Activities | <u>116,965</u> | <u>546,571</u> |
| Cash Flows From Noncapital Financing Activities | | |
| Proceeds from deferred sale of asset | - | 500 |
| Net Cash from Noncapital | | |
| Financing Activities | <u>-</u> | <u>500</u> |
| Cash Flows From Capital and Related | | |
| Financing Activities | | |
| Acquisition of capital assets | (377,517) | (173,754) |
| Restricted revenue received - impact fees | 1,102,387 | 1,837,000 |
| Restricted revenue received - impact fees interest | 253,937 | 116,866 |
| Net Cash From Capital and | | |
| Related Financing Activities | <u>978,807</u> | <u>1,780,112</u> |
| Cash Flows From Investing Activities | | |
| Proceeds from land lease | 8,337 | 8,337 |
| Interest on investments | 56,662 | 33,472 |
| Net Cash From Investing Activities | <u>64,999</u> | <u>41,809</u> |
| Net Increase in Cash | 1,160,771 | 2,368,992 |
| Cash at Beginning of Year | <u>5,711,389</u> | <u>3,342,397</u> |
| Cash at End of Year | <u><u>\$ 6,872,160</u></u> | <u><u>\$ 5,711,389</u></u> |

The accompanying notes are an integral part of these financial statements.

**HEBER VALLEY SPECIAL SERVICE DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

| | <u>2006</u> | <u>2005</u> |
|---|--------------------------|--------------------------|
| Reconciliation of income (loss) from operations to net cash from operating activities: | | |
| Income (loss) from operations | \$ (290,336) | \$ (194,153) |
| Items not requiring the use of cash: | | |
| Depreciation | 406,313 | 376,401 |
| Net changes in certain assets and liabilities: | | |
| Receivables | (1,921) | 360,500 |
| Other current operating assets | 585 | - |
| Accounts payable | (965) | 2,598 |
| Other current liabilities | 3,289 | 1,225 |
| Net Cash From Operating Activities | <u><u>\$ 116,965</u></u> | <u><u>\$ 546,571</u></u> |

| | <u>2006</u> | <u>2005</u> |
|--|------------------|-------------|
| Supplemental Disclosure of Noncash Financing and Investing Activities | | |
| Gain on disposal of assets | <u>\$ 83,944</u> | <u>\$ -</u> |
| Acquisition of capital assets | <u>\$ 91,700</u> | <u>\$ -</u> |

The accompanying notes are an integral part of these financial statements.

**HEBER VALLEY SPECIAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity — The Heber Valley Special Service District (the “District”) was organized in 1977 by the Board of County Commissioners of Wasatch County, Utah for the purpose of providing sewage collection and treatment services. The Board of County Commissioners supervises and controls the activities of the District and, therefore, the District is considered a component unit of the County. The District follows governmental accounting principles and is accounted for as an enterprise fund in a manner similar to a private business where the intent of the governing body is that the costs of providing services (including depreciation) on a continuing basis is financed primarily through user charges.

Basis of Accounting — The accrual basis of accounting is used whereby revenues are recorded when earned and expenses are recorded when liabilities are incurred. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, for Proprietary Fund accounting, the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures.

Capital Assets — All plant assets are included in the financial statements and are stated at historical cost. Depreciation is provided using the straight-line method over their estimated service lives. The service lives by type of asset are as follows:

| | |
|---------------------------|--------------|
| Building and improvements | 40 years |
| Equipment and vehicles | 5 - 10 years |

Cash Equivalents — For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Use of Estimates — The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Operating and Non-Operating Revenue and Expenses — Operating revenues and expenses result from providing goods and services relating to the primary operations of the District. Other revenues and expenses are reported as non-operating.

Use of Restricted Net Assets — Impact fees are restricted for capital improvements. Improvements can be made using unrestricted funds at the discretion of the Board.

NOTE 2 – CASH DEPOSITS AND INVESTMENTS

Cash Deposits — All bank deposits were covered by federal depository insurance. Deposits are not collateralized, nor are they required to be by State statute. The District had \$23,798 and \$45,209 in cash held by a bank as of December 31, 2006 and 2005, respectively.

Investments— The District's deposits and investment policy follows the requirements of the Utah Money Management Act (Utah Code Annotated 1953, Chapter 7) in handling its depository and temporary investing transactions. This law requires the depositing of District funds in a "qualified depository." The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The Money Management Act also governs the scope of securities allowed as appropriate temporary investments for the District and conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers. Allowable investments under the Act include:

1. Negotiable or nonnegotiable deposits of qualified depositories,
2. Repurchase agreements with qualified depositories or primary reporting dealers,
3. Commercial paper which is rated P-1 by Moody's Investor Services or A-1 by Standard and Poors if the remaining term to maturity is 180 days or less,
4. Bankers' acceptances that are eligible for discount at a federal reserve bank and which have a remaining term of 180 days or less,
5. Obligations of the United States Treasury, including bills, notes and bonds,
6. Obligations issued by or fully guaranteed as to principal and interest by the following agencies or instrumentalities of the United States in which a market is made by a primary reporting government securities dealer: Federal Farm Credit banks, Federal Home Loan banks, Federal National Mortgage Association, Government National Mortgage Association, Federal Home Loan Mortgage Corporations, or Student Loan Marketing Association.
7. Shares or certificates in any open-end management investment company registered with the Securities and Exchange under the Investment Company Act of 1940, the portfolio of which is restricted by law or agreement to investments in which public funds may be invested directly.

A State Money Management Council was created under the State Money Management Act consisting of five individuals appointed by the Governor and qualified by training and experience in the fields of investing and finance. In performing its functions and responsibilities, the council provides a measure of depository protection. The council issues a list of qualified depositories to public treasurer's quarterly, and monitors the maximum amount of public funds each depository is eligible to hold in accordance with the law and the rules of the council. State law and council rules govern the finance reporting requirements of qualified depositories in which public funds may be deposited and prescribe the conditions under which the designation of a depository shall remain in effect. If a qualified depository should become ineligible to hold public funds, the public treasurers are notified immediately.

The District has invested all of its temporarily idle funds (totaling \$6,851,660 and \$5,673,209 as of December 31, 2006 and 2005, respectively) with the Utah Public Treasurer's Investment Fund (PTIF). The Utah State Treasurer's Office operates the PTIF which is invested in accordance with the State Money Management Act. The State Money Management Council provides regulatory oversight for the PTIF.

The investments with the State bore interest at 5.21% and 3.18% at December 31, 2006 and 2005, respectively. The carrying amount is materially equal to fair value. All securities comprising the PTIF

comply with strict investment criteria required by the Utah Money Management Act. All practices of the Fund are under the monthly scrutiny of the Utah Money Management Act. The Utah State Auditor audits the Fund each year. The degree of risk of the fund depends upon the underlying portfolio. Parties interested in learning what specific investments comprise the State Treasurer's Fund may contact the Utah State Treasurer's Office.

Investment Interest Rate Risk – The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Summary — The above described cash deposits and investments are presented in the financial statements as follows at December 31:

| | 2006 | 2005 |
|--------------------------------------|--------------|--------------|
| Cash in bank | \$ 20,500 | \$ 38,180 |
| Cash - PTIF general account | 1,140,101 | 1,223,465 |
| Total Unrestricted Cash | 1,160,601 | 1,261,645 |
| Cash - Restricted (PTIF impact fees) | 5,711,559 | 4,449,744 |
| Total Cash | \$ 6,872,160 | \$ 5,711,389 |

NOTE 3 – CAPITAL ASSETS

The following is a summary of the capital asset activity for the year ended December 31, 2006:

| | Balance December 31, 2005 | Additions | Disposals | Balance December 31, 2006 |
|--|---------------------------------|------------------|-----------------|---------------------------------|
| Capital Assets | | | | |
| Capital assets not being depreciated: | | | | |
| Land and water rights | \$ 6,216,626 | \$ - | \$ - | \$ 6,216,626 |
| Construction in progress | 2,760 | - | - | 2,760 |
| Total capital assets not being depreciated | 6,219,386 | - | - | 6,219,386 |
| Capital assets being depreciated: | | | | |
| Sewage treatment plant | 12,027,770 | - | - | 12,027,770 |
| Ground water drains | 86,811 | - | - | 86,811 |
| Lift station | 19,870 | - | - | 19,870 |
| Treatment plant equipment | 654,460 | - | - | 654,460 |
| Plant and farm equipment | 910,494 | 469,217 | 149,597 | 1,230,114 |
| Total capital assets being depreciated | 13,699,405 | 469,217 | 149,597 | 14,019,025 |
| Accumulated depreciation: | | | | |
| Sewage treatment plant | 5,469,044 | 317,840 | - | 5,786,884 |
| Ground water drains | 69,402 | 967 | - | 70,369 |
| Lift station | 17,158 | 1,987 | - | 19,145 |
| Treatment plant equipment | 531,507 | 20,413 | - | 551,920 |
| Plant and farm equipment | 639,901 | 65,106 | 141,841 | 563,166 |
| Total accumulated depreciation | 6,727,012 | 406,313 | 141,841 | 6,991,484 |
| Total capital assets being depreciated, net | 6,972,393 | 62,904 | 7,756 | 7,027,541 |
| Capital assets, net | \$ 13,191,779 | \$ 62,904 | \$ 7,756 | \$ 13,246,927 |

The following is a summary of the capital asset activity for the year ended December 31, 2005:

| | Balance December 31, 2004 | Additions | Disposals | Balance December 31, 2005 |
|--|---------------------------------|---------------------|-------------|---------------------------------|
| Capital Assets | | | | |
| Capital assets not being depreciated: | | | | |
| Land and water rights | \$ 6,216,626 | \$ - | | \$ 6,216,626 |
| Construction in progress | 2,760 | - | - | 2,760 |
| Total capital assets not being depreciated | 6,219,386 | - | - | 6,219,386 |
| Capital assets being depreciated: | | | | |
| Sewage treatment plant | 11,870,710 | 157,060 | - | 12,027,770 |
| Ground water drains | 86,811 | - | - | 86,811 |
| Lift station | 19,870 | - | - | 19,870 |
| Treatment plant equipment | 654,460 | - | - | 654,460 |
| Plant and farm equipment | 893,800 | 16,694 | - | 910,494 |
| Total capital assets being depreciated | 13,525,651 | 173,754 | - | 13,699,405 |
| Accumulated depreciation: | | | | |
| Sewage treatment plant | 5,163,560 | 305,484 | - | 5,469,044 |
| Ground water drains | 68,435 | 967 | - | 69,402 |
| Lift station | 15,171 | 1,987 | - | 17,158 |
| Treatment plant equipment | 510,479 | 21,028 | - | 531,507 |
| Plant and farm equipment | 592,966 | 46,935 | - | 639,901 |
| Total accumulated depreciation | 6,350,611 | 376,401 | - | 6,727,012 |
| Total capital assets being depreciated, net | 7,175,040 | (202,647) | - | 6,972,393 |
| Capital assets, net | <u>\$ 13,394,426</u> | <u>\$ (202,647)</u> | <u>\$ -</u> | <u>\$ 13,191,779</u> |

NOTE 4 – NET ASSETS

Restricted for Capital Improvements – Impact Fees — By resolution entitled “Resolution 00-01, Heber Valley Special Service District Waste Water Treatment Facilities Impact Fee Resolution” and effective April 19, 2000, the District assesses an impact fee on land development within the District boundaries to provide for sewer facilities necessitated by such development. These fees are accounted for as non-operating revenue and are not to be used for general operations. Also, the earnings on the impact fees investments are not to be used for general operations and are, therefore, accounted for as restricted revenue. As plant improvements are made, the amount of the improvements is moved from restricted net assets to unrestricted net assets.

The following is a summary of the activity affecting the net assets restricted for capital improvements – impact fees:

| | <u>2006</u> | <u>2005</u> |
|---|---------------------|---------------------|
| Restricted for capital improvements- | | |
| impact fees, beginning of year | \$ 4,449,744 | \$ 2,638,356 |
| Impact fees received | 1,102,387 | 1,837,000 |
| Interest income - impact fees | 253,937 | 116,866 |
| Payments for plant improvements and maintenance | <u>(94,509)</u> | <u>(142,478)</u> |
| Restricted for capital improvements- | | |
| impact fees, end of year | <u>\$ 5,711,559</u> | <u>\$ 4,449,744</u> |

NOTE 5 – LAND RENT

In June 1999 the District purchased land and with an agreement to lease the property back to the seller. The District is leasing the land back to the seller for \$4,737 per year. The lease agreement is ongoing but can be terminated with a one year's notice.

In April 2004 the District entered into a lease agreement whereby the District is leasing land to another party for \$2,100 per year. The lease is scheduled to terminate on August 31, 2009. However, the District does have the option to terminate the lease early subject to an early termination fee.

In May 2004 the District entered into another lease agreement to lease land to another party for \$1 per year. This lease will end in 2024.

In 2005 and 2006, the District received payment for a land lease that was entered into and has since ended. The revenue was recognized in 2005 for this lease but no lease is active and the land for which the payment pertains to has previously been sold. The amount included in land rent is \$1,500 for 2005 and 2006.

NOTE 6 – RETIREMENT PLAN

Plan Description — The Heber Valley Special Service District contributes to the Local Governmental Contributory Retirement System (Contributory System) and Local Governmental Noncontributory Retirement System which are cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). The Systems provide retirement benefits, annual cost of living adjustments, death benefits, and refunds to plan members and beneficiaries in accordance with retirement statutes and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 (Chapter 49) as amended, which also establishes the Utah State Retirement Office (Office) for the administration of the Utah Retirement Systems and plans. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issued a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy — Heber Valley Special Service District is required to contribute 11.59% of their annual covered salary for the period from January 2006 to December 2006. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The District contributions to the Noncontributory Retirement System for December 31, 2006, 2005, and 2004 were \$10,699, \$9,780, and \$8,311, respectively. The contributions were equal to the required contributions for each year.

NOTE 7 – ECONOMIC DEPENDENCY

The District is economically dependent on the services it provides to Heber City and Midway Sanitation Districts. All of the District's Sewer Service Revenue (including small amounts of dump station income) comes from these governmental entities. Sewer Service Revenue from the two entities provided \$273,617 and \$187,858 in 2006 and \$251,765 and \$174,489 in 2005, respectively. Total dump station income was \$3,505 and \$6,202 for 2006 and 2005, respectively.

NOTE 8 – MAYFLOWER SERVICE AGREEMENT/JORDANELLE SPECIAL SERVICE DISTRICT

The District entered into an agreement with Mayflower Special Service District on August 29, 1989 whereby the Heber Valley Special Service District would provide sewage treatment to certain properties located within Wasatch County. However, that agreement was voided with the creation of the Jordanelle Special Service District. In May 1998 the Wasatch County Commissioners determined that the entity of choice for sewer and other municipal services in the Jordan Basin, including Mayflower, is the Jordanelle Special Service District. The 1999 Facility Plan of the Heber Valley Special Service District recognizes 1,640 potential connections from the Jordanelle Special Service District. As of December 31, 2006, there are 762 equivalent residential connections (ERC's).

On October 29, 2001 the District passed Resolution No. 01-02 supporting the design and construction of a wastewater treatment facility by the Jordanelle Special Service District. The District will cooperate with Jordanelle in the approval, design, and construction of a wastewater treatment facility and provide wastewater treatment during that process.

NOTE 9 – RISK MANAGEMENT

The District is subject to risk of loss from various events, including torts, theft, damage to assets, business interruption, errors and omissions, and job-related injuries to employees, as well as acts of God.

The District has purchased insurance and workers' compensation coverage to minimize their risks of loss. There has been no significant reduction in coverage against these losses from year to year.

SUPPLEMENTAL INFORMATION

**HEBER VALLEY SPECIAL SERVICE DISTRICT
SCHEDULE OF REVENUES, EXPENSES
AND CAPITAL ASSET ACQUISITIONS
COMPARED TO BUDGET AS AMENDED
(Other than Depreciation and Impact Fee Transactions)
FOR THE YEAR ENDED DECEMBER 31, 2006**

| | Original Budget | Final Budget | Actual | Variance with Final Budget Over/ (Under) |
|--|--------------------|-----------------|---------------------|---|
| Operating Revenues | | | | |
| Sewer service charges | \$ 417,000 | \$ 463,700 | 464,979 | \$ 1,279 |
| Farmstead revenue | 85,000 | 105,000 | 98,859 | (6,141) |
| Miscellaneous income | 232,400 | 168,000 | - | (168,000) |
| Total Operating Revenues | <u>734,400</u> | <u>736,700</u> | <u>563,838</u> | <u>(172,862)</u> |
| Other Revenue | | | | |
| Interest income (excluding impact fee interest) | 35,000 | 57,000 | 56,662 | (338) |
| Land rent | 6,837 | 6,837 | 8,337 | 1,500 |
| Total Revenues | <u>776,237</u> | <u>800,537</u> | <u>628,837</u> | <u>(171,700)</u> |
| Operating Expenses | | | | |
| Sewer service | 258,200 | 248,200 | 251,686 | 3,486 |
| Farmstead | 152,700 | 120,225 | 122,175 | 1,950 |
| Administrative and general expenses (excluding depreciation) | 54,337 | 33,656 | 74,000 | 40,344 |
| Total Operating Expenses | <u>465,237</u> | <u>402,081</u> | <u>447,861</u> | <u>45,780</u> |
| Capital Acquisitions | | | | |
| Capital purchases and updates | 311,000 | 398,456 | 377,517 | (20,939) |
| Total Capital Acquisitions | <u>311,000</u> | <u>398,456</u> | <u>377,517</u> | <u>(20,939)</u> |
| Excess of Revenues Over Expenses and Capital Acquisitions | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (196,541)</u> | <u>\$ (196,541)</u> |

**HEBER VALLEY SPECIAL SERVICE DISTRICT
SCHEDULE OF IMPACT FEES
FOR THE YEARS ENDED DECEMBER 31, 1999 THROUGH 2006**

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Sewer District | | | | | | | | |
| Beginning Impact Fee Balance | \$ 2,261,033 | \$ 3,005,898 | \$ 3,386,075 | \$ 861,303 | \$ 1,266,398 | \$ 1,637,964 | \$ 2,638,356 | \$ 4,449,744 |
| Fees Collected | 1,132,738 | 1,038,656 | 1,218,848 | 616,584 | 614,104 | 1,195,183 | 1,837,000 | 1,102,387 |
| Interest Income | 134,056 | 216,302 | 81,685 | 25,747 | 27,044 | 38,493 | 116,866 | 253,937 |
| Project Expenditures | (521,929) | (874,781) | (3,825,305) | (237,236) | (269,582) | (233,284) | (142,478) | (94,509) |
| Impact Fee Increase (Decrease) | 744,865 | 380,177 | (2,524,772) | 405,095 | 371,566 | 1,000,392 | 1,811,388 | 1,261,815 |
| Ending Impact Fee Balance | \$ 3,005,898 | \$ 3,386,075 | \$ 861,303 | \$ 1,266,398 | \$ 1,637,964 | \$ 2,638,356 | \$ 4,449,744 | \$ 5,711,559 |

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Accounting Oversight Board



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Board of Heber Valley
Special Service District
Midway, Utah

We have audited the financial statements of Heber Valley Special Service District as of and for the year ended December 31, 2006, and have issued our report thereon dated May 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Heber Valley Special Service District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the effectiveness of the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Heber Valley Special Service District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board, management, and governmental oversight bodies and is not intended to be and should not be used by anyone other than these specified parties.

Hansen, Barnett & Maxwell, P.C.

HANSEN, BARNETT & MAXWELL P.C.

Salt Lake City, Utah
May 10, 2007

HANSEN, BARNETT & MAXWELL P.C.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH GENERAL AND SPECIFIC REQUIREMENTS APPLICABLE TO AUDITS OF LOCAL GOVERNMENTS IN UTAH

Honorable Board of Heber Valley
Special Service District
Midway, Utah

We have audited the financial statements of Heber Valley Special Service District for the year ended December 31, 2006, and have issued our report thereon dated May 10, 2007. Our audit included test work on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance audit Guide, including:

- Public Debt
- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Special District
- Impact Fees
- Other Compliance Requirements

The District did not receive any major or non-major State grants during the year ended December 31, 2006.

The management of the Heber Valley Special Service District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, the Heber Valley Special Service District complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2006.

Hansen, Barnett & Maxwell, P.C.

HANSEN, BARNETT & MAXWELL P.C.

Salt Lake City, Utah
May 10, 2007